Committee on Ways and Means

America's Small Businesses Leading the Economy

The U.S. economy posted a 7.2 percent expansion in the third quarter, driven by recently enacted tax legislation. Leading that growth are strong gains from small businesses.

Lower marginal tax rates for small businesses and tax incentives for capital investment help fuel growth in the small business sector.

- Non-farm proprietors' income – a measure of the profitability of unincorporated businesses – increased 12.6 percent in the third quarter. This is the fastest pace since early 1998.

- Small businesses employ about half of all U.S. workers and create 60 to 80 percent of all new jobs annually.

- Self-employment has increased by over 700,000 since January 2002.

- Consumer confidence among small businesses, as measured by the National Federation of Independent Businesses (NFIB) Small Business Optimism Index, has increased from 94.7 in March 2003 to 101.9 in October 2003.

The recently enacted *Jobs and Growth Tax Relief Reconciliation Act* supports this growth in two important ways:

Marginal tax rate cuts

- The top marginal tax rate was reduced from 38.6 percent to 35 percent.
- Two-thirds of all taxpayers receiving the top rate reduction (about 400,000) are owners of small businesses.
- Small businesses (S corps, partnerships, sole proprietorships) received $9.7 billion in benefits from the reduction of the top tax rate.
- Twenty-three million small business owners have received tax savings from recently enacted tax legislation.

Increased Section 179 Expensing from $25,000 to $100,000 annually

- 4.2 million small businesses benefited from Section 179 in 1999 (most recent available data). Recently enacted legislation increased the number of eligible businesses.
- Over 80 percent of the benefit from Section 179 goes to S Corps, partnerships and sole proprietorships.
- Over two million firms will benefit from the increase in Section 179. S Corporations and sole proprietorships will receive about 75 percent of the benefit from this provision.